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Mis-selling to return as Irda takes a U-turn?

Renewing licences for agents with poor persistency numbers will put policyholders at risk

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To encourage customers to buy life insurance policies, sellers need to present them for what they are—long-term contracts. So, it made sense when, in 2011, the Insurance Regulatory and Development Authority (Irda) put in place a minimum standard of performance for agents to renew their agency licence—maintain a persistency rate of at least 50%.

Agents need to renew their licence every three years. The persistency of a life insurance policy indicates whether the customer is renewing her policy or quitting midway. A high persistency rate bodes well for the customer and reflects good sales practices.

However, before these guidelines could have a meaningful impact, Irda, under its new chairman T.S. Vijayan, did an about-turn. It notified that renewal would no longer be subject to meeting the standard minimum persistency criteria. Instead, from 1 July, insurers can set their own company specific criterion.

Persistency is a keenly tracked metric, and allowing agents to not adhere to a uniform persistency requirement could again expose customers to mis-selling.

In life insurance, both the insurer and the policyholder benefit if the policy is held for the entire tenor. Yet, poor persistency has been a bane in India. A rough calculation of simple averages shows that in the previous three years, the industry reported an average 13th month persistency rate of less than 65%—this means that lesser than 65% policies were renewed for the second year. "In markets such as the US, Japan and Korea, where the agency channel is predominant, a rate of over 85% is standard," says Kapil Mehta, managing director, SecureNow Insurance Broker Pvt. Ltd.

In 2011, Irda put in place a minimum standard of performance for insurance agents as it felt that agents could play a vital role in ensuring high persistency by not selling unsuitable products, providing correct and complete details of suitable products, and considering the needs of prospective policyholders.

Initially, these guidelines were meant only for individual agents, who had to maintain an average persistency rate of at least 50% for the years FY12, FY13 and FY14, in terms of both policies and premium.

Even though the guidelines don't explicitly say so, insurers say the rate refers to 13th month persistency. So, if an agent applied for a renewal in, say, FY14, she would need at least half of the policies she had sold to be renewed.

But Irda modified the circular to calculate persistency only in terms of the number of policies and not the amount. It further asked for persistency requirement from FY15 of at least 75%. A subsequent modification brought corporate agents into this fold.

Now, however, before the industry could raise the bar, Irda has scrapped this and allowed insurers to set their own thresholds instead. "Companies also have a reputation to maintain. So it's unlikely that they will lower their persistency requirements just because the rule allows them to do so. Moreover, we are already seeing an upward trend," says G. Murlidhar, managing director, Kotak Mahindra Old Mutual Life Insurance Ltd.

In addition to this, selling life insurance policies isn't considered a plum job anymore. Attrition rate among life insurance agents is high, and will only increase if licence renewal becomes difficult.

FOOT SOLDIERS

While LIC relies primarily on individual agents, private insurers rely on corporate agents as well.

Individual agents / Corporate agents

Average number of policies sold

	FY11 Individual agents	FY11 Corporate agents	FY12 Individual agents	FY12 Corporate agents	FY13 Individual agents	FY13 Corporate agents
Private insurers	4	1,976	3	2,533	3	5,064
LIC	26	1,708	27	2,194	29	2,569

Average new business premium (₹ lakh)

	FY11 Individual agents	FY11 Corporate agents	FY12 Individual agents	FY12 Corporate agents	FY13 Individual agents	FY13 Corporate agents
Private insurers	0.99	594.82	0.81	816.29	0.79	1,699.61
LIC	3.75	313.42	3.14	444.90	3.28	619.65

Average premium per policy (in ₹)

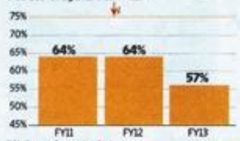
	FY11 Individual agents	FY11 Corporate agents	FY12 Individual agents	FY12 Corporate agents	FY13 Individual agents	FY13 Corporate agents
Private insurers	27,002	30,109	23,912	32,222	24,457	33,562
LIC	14,159	18,350	11,698	20,280	11,143	24,123

NEW BUSINESS IN FY13

Figures in brackets are number of policies and include only individual business
**Others was relatively insignificant

BIG LAG

The average 13th month persistency of the industry is well below the 75% mark that Irda had set for agents from FY15*.

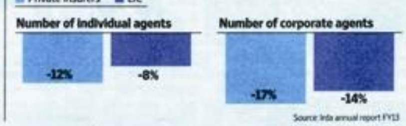


*We have taken a simple average

OFF TO GREENER PASTURES

Life insurance is going through high attrition among agents. This may have prompted Irda to not hold persistency as a requirement for licence renewal.

Difference between 1 April 2012 and 31 March 2013



Source: Irda annual report FY13

Irda: Insurance Regulatory and Development Authority; the 13th month persistency ratio indicates policies on which premium is paid for the second year.

Paras Jain/Mint

Bigger risk

Allowing insurers to set their own persistency threshold holds the risk of the industry slipping back instead of improving on its sales practices. "Mis-selling is a big concern. Poor persistency is often the outcome of mis-selling. That's why it is useful to set a high benchmark across the industry. There must be a rationale behind why the regulator has removed the uniform persistency requirement," says Mehta. And it's not the rationale alone that needs to be elaborated upon.

The other thing that has to be made available in the public domain is data on the persistency performance of life insurance agents—how many agents made the cut in the past three years, and how many didn't.

"Insurers have been lenient as so many agents are dropping out. Inactive agents have also dropped out, and mostly the serious ones remain. In principle, Irda has done the right thing by allowing each insurer to set its own requirement. But in practise we need to be watchful so that insurers don't book surrender profits through relaxed persistency requirements," says P. Nandagopal, managing director and chief executive officer, IndiaFirst Life Insurance Co. Ltd.

Although we could not establish how many agents were refused renewal on account of poor persistency, we ran some numbers to see how much the industry depends on individual and corporate agents.

According to Irda's latest annual report for FY13, Life Insurance Corp. of India—the biggest life insurance company in the country—relies heavily on agents, while the private insurers depend almost equally on individual and corporate agents. But both saw a decline in FY13. Further to this, the industry as a whole had an average 13th month persistency ratio in terms of the number of policies sold of around 57%. A level of 75% in FY15 would indeed have been a tough target to achieve.

While Irda's decision may help the industry retain agents, it will be at the cost of healthy sales practices.

If they don't have to worry about policy renewals, agents are likely to once again focus solely on new business, and not on servicing these policies. This is bad news for the industry and customers.